

**Housing and the recession: how are low earners faring?****Tuesday 15 September, 09:30-11:30, One Great George Street, Westminster, SW1P  
3AA****1. Attendees**

<i>David Arnold</i>	<i>Unison</i>
<i>Helen Aynsley</i>	<i>Resolution Foundation</i>
<i>Yolande Barnes</i>	<i>Savills</i>
<i>Ravi Baghirathan</i>	<i>Prime Minister's Strategy Unit</i>
<i>Kay Boycott</i>	<i>Shelter</i>
<i>Shane Brownie</i>	<i>Communities and Local Government</i>
<i>Vera Cotrell</i>	<i>Which?</i>
<i>Louisa Darian</i>	<i>Resolution Foundation</i>
<i>Caroline Davey</i>	<i>Shelter</i>
<i>Abigail Davies</i>	<i>Chartered Institute of Housing</i>
<i>Roger Harding</i>	<i>Joseph Rowntree Foundation</i>
<i>Naomi Harflett</i>	<i>Money Advice Trust</i>
<i>Axel Heitmueller</i>	<i>Prime Minister's Strategy Unit</i>
<i>Andrew Heywood</i>	<i>Council of Mortgage Lenders</i>
<i>Denise Morrisroe</i>	<i>EHRC</i>
<i>Kurt Mueller</i>	<i>British Property Foundation</i>
<i>James Lloyd</i>	<i>Social Market Foundation</i>
<i>Sophia Parker</i>	<i>Resolution Foundation</i>
<i>Andrew Pratt</i>	<i>Grainger Plc</i>
<i>Liz Phelps</i>	<i>Citizens Advice</i>
<i>Karen Raven</i>	<i>Places for People</i>
<i>Vincenzo Rampulla</i>	<i>National Landlords Association</i>
<i>Sue Regan (Chair)</i>	<i>Resolution Foundation</i>
<i>Laura Rous</i>	<i>CB Richard Ellis</i>
<i>Gavin Smart</i>	<i>National Housing Federation</i>
<i>Richard Tacagni</i>	<i>LACORS</i>
<i>Jon Trigg</i>	<i>A4e</i>
<i>Anthony Vigor</i>	<i>Prime Minister's Policy Unit</i>
<i>Matthew Whittaker</i>	<i>Resolution Foundation</i>

**2. Welcome and introductions**

Sue Regan opened the meeting, setting out the purpose of the session. The recession has had a particular effect on low earners' access to home ownership, ability to sustain home ownership and reliance on the private rented sector. Following on from the audit the Resolution Foundation produced in June, we have been running a seminar series on issues relating to housing, work and skills and household finances to consider the impact of the recession on low earners and what more needs to change to protect them both now and going into recovery. Further instability in the market and the likely event of a second wave of repossessions makes it particularly important to keep housing issues live.

### **3. Speakers**

#### **How is the housing market changing? Yolande Barnes, Savills**

Yolanda described how the housing market has changed from 1918 to the present day. From 1918 to 1980 there was significant disinvestment in the PRS and increases in both social housing and homeownership. Homeownership continued to grow in the period to 2000, with the introduction of Right to Buy in the 1980s transferring a substantial number of properties from public to private ownership. Despite widespread expectations of ongoing increases in homeownership, there has been a slight fall since the start of the new millennium. With social housing remaining at a low plateau, the PRS has filled the gap: the proportion of all properties accounted for by the PRS has almost doubled in size since 1988, rising from 9 to 14 per cent. The credit crunch which began in 2007 and impacted on households' ability to access mortgages can therefore be seen to have exacerbated a trend that was already in train.

Low earners can be found in the intermediate market: too poor to access home ownership and too rich to access social housing. The affordability issue for this group in the current context is not that mortgage repayments as a proportion of income have moved beyond previous levels, but that they do not have access to the equity to meet increased deposit requirements; these can be in the region of 30-40 per cent to secure the best mortgage rates. Modest increases in house buying and house prices in recent months have been driven by cash buyers rather than people accessing mortgages. This signals that, in order to meet low earners' housing needs, we need to either develop a means of sharing equity or improve PRS opportunities.

#### **How are low earners faring? Matthew Whittaker, Resolution Foundation**

Matthew outlined the Foundation's definition of low earners, from both a conceptual and an analytical basis. He argued that low earners are squeezed, exposed and overlooked and that their situation has been made more precarious by the economic downturn. A significant number of low earners own their own home, but the number of new entrants to the market has been in decline for some time because of reduced affordability. Those low earners who have entered home ownership in recent years have frequently overstretched themselves. As a result, they are more likely than homeowners in other income groups to be in a position of negative equity. Reduced access to homeownership and reduced availability of social housing means that a significant number of low earners rely on the PRS and are therefore more highly exposed than members of other income groups to the generally poorer conditions and stability associated with the sector.

Matthew referred to Julie, a participant at a recent Foundation focus group. She lives in private rented accommodation with her partner. Despite not feeling safe where she lives, she cannot afford to move. She would like to either move into social housing (she has been on the waiting list for five years) or buy her own place (but cannot afford to save for a deposit). Her income restricts her options for living alone: before moving in with her current partner Julie had to live with her daughter and grand-daughter. In the midst of a recession, Julie is concerned that her landlord will be forced to sell, leaving her having to find somewhere else to live; she feels like she and her partner are at his mercy.

#### **From policy to practice: how have the recession policies been implemented? Kay Boycott, Shelter**

Kay pointed out that Shelter has experienced an increase in new housing problems during the recession, particularly in relation to arrears and repossessions, but that existing issues have not gone away: Shelter's top web downloads remain in the areas of housing waiting lists, homelessness applications, repairs and tenancy deposit schemes.

The government has responded to the economic downturn with a range of initiatives to sustain home ownership but much less attention has been given to the private rented sector. Generally the initiatives to sustain home ownership have been positive and have resulted in more people accessing advice and support. However, there are still gaps. These include:

- a danger that low earners who have borrowed from sub-prime lenders will not be able to re-mortgage when their fixed rate deal comes to an end;
- concerns that there is insufficient capacity within the advice sector to respond to housing market issues – particularly as there is likely to be a lag in the repossession issues which mean that demand for advice is not yet at its peak;
- back office functions and other practical limitations do not allow the support that is available to be accessed quickly enough; and
- confusion among advisers and individuals as a result of the array of initiatives.

She argued that we still know very little about what the experience of the recession is for different groups. For example, we know very little about voluntary repossessions. Kay warned against thinking about the recovery period too soon. The recession initiatives are yet to have fully bedded down. In the medium-term, the private rented sector needs to be given the attention that has been given to owner occupation over the last few decades.

#### **The future of the private rented sector: Andrew Pratt, Grainger**

Andrew pointed out that the private rented sector has expanded significantly in recent years as a result of deregulation of the sector, a reduction in the fiscal bias in favour of owner occupation and a decline in the stigma associated with renting. He highlighted some of the benefits of renting in the private sector including the flexibility it offers, particularly for those who need to be mobile to find work. However it remains a very fragmented sector with a diverse range of providers and variation in levels of conditions and security.

The recession has resulted both in increased demand for PRS accommodation overall and a change in the types of accommodation demanded. The shift towards demand for family accommodation requires a change in the way buildings are designed.

Andrew argued that the PRS had been overlooked over the last few years. The Rugg Review was welcomed but the Government's response to it has been disappointing. The Government has done little to encourage the PRS to meet demand through appropriate investment vehicles, like real estate investment trusts (REITs). There are some examples of local authorities engaging with the private sector to house homeless people in temporary accommodation; this good practice needs to be spread. Andrew argued that the development of institutional landlords would help to address concerns about quality and security but that further incentives to improve housing stock could be offered by government.

## **4. Discussion**

### **Private Rented Sector**

The discussion began on the issue of conditions and satisfaction within the PRS. According to the Survey of English housing, tenant satisfaction in the PRS is higher than in the social rented sector and the Rugg Review dispelled the myth that smaller landlords provided less good services than large corporates. However, the experience is likely to differ for low earners, who are more likely to be living in the lower end of the PRS. They are often disempowered: the current economic context

heightens the prospect of being told they have to leave the property because the landlord has either experienced repossession or has decided to sell. Some tenants also fear retaliatory eviction if they ask for repairs to be done on the property. This means that, as the evidence Matthew presented highlighted, the PRS is often not the tenure of choice for low earners.

There is a degree of consensus around the vision of the PRS but it is important to think about how to get there. One way to combat insecurity in the PRS would be to ensure that landlords are in it for the longer term by creating appropriate incentives. Alternatively, an internal market can be developed whereby landlords who need to withdraw from the market can have their properties taken over by larger or more successful landlords. Such measures would be helped if the Government recognised that landlords are akin to small businesses and therefore need similar kinds of support and similar freedoms to dispose of property as part of normal business churn. There was a view that local authorities could also do more to weed out bad landlords.

Supply of the PRS has been affected by the recession. While repossessions among buy to let landlords have increased more rapidly than among other homeowners in recent months, the trend has started to reverse now, such that buy to let landlords are once again less likely than others to face repossession. However, lending has been particularly badly hit for buy to let landlords, making it much more difficult for people to enter the market. It is important not to over-focus on buy-to-let, which only makes up a proportion of all landlords: studies suggest that landlords view PRS as a 15-year investment on average. The figures are distorted as the increase in buy to let mortgages can be a result of remortgaging rather than new people entering the market.

There was disagreement as to where supply will come from over the next few years. Some people thought that, with the right financing, there was a real opportunity for a growth in institutional landlords. In Germany, investors work side by side with landlords. However, others were more sceptical, arguing that private investment in the PRS would be small: for example, the HCA PRS initiative will only produce 10,000 properties over three years. Any recent increase in institutional investment is likely to have more to do with the low levels of returns available on other investments than with a long-term shift in focus. Far more supply is likely to come from the cottage industry created by the large numbers of small landlords involved in the PRS, financed through venture capital. If hundreds of portfolios could be developed with a proven track record, these could then be sold onto institutional landlords.

Opportunities exist to help stabilise the private rented market and draw in investment, including reform of rental guarantees (which hold back investment), modification of stamp duty rules in relation to PRS (which currently favour buy to let landlords over institutional) and easing of local authority affordable housing targets (which limit the plans of developers who want to build rented property).

There is also a need for changes to Housing Benefit so that the PRS does not place such a financial strain on tenants. For example, the Local Housing Allowance needs to reflect local market rates and the introduction of a tenure-neutral housing tax credit could simplify tenants' interactions with the benefits system. The lack of advice available to prospective PRS tenants compared with that which buyers can access was raised as an important barrier to development of the sector.

### **Accessing Home Ownership**

There was some debate as to whether or not the government should continue with its objective of promoting home ownership. A small minority thought that home ownership should remain a government objective because of its interaction with pension provision. It was argued that people on

low incomes in the PRS have little incentive to save for a pension because any savings they make could disqualify them from means-tested benefits in retirement.

If homeownership remains the goal, the Government faces two challenges: affordability and sustainability. Affordability is affected by supply issues but given that there is a relationship between PRS growth and homeownership growth, the Government could consider making multiple home ownership (being a buy to let landlord) less attractive by modifying capital gains tax rules.

However, the majority of delegates thought that homeownership should not be the Government's objective, partly because long-term trends mean it can be little more than an aspiration. Young people are entering adulthood with far greater levels of debt and less secure employment. They are much less capable of sustaining home ownership. And the flexibility that the PRS offers is very worthwhile. Even in the US, where there is significant subsidy through Mortgage Interest Relief, levels of home ownership have not exceeded 65 per cent. There is also not much research that homeownership offers any real (social) benefit beyond profit through inflation. For those on the margins of homeownership, promotion of buying represents a risky strategic aim.

In addition, it was argued that setting housing policy on the basis of pensions needs would be a dangerous approach. With the increase in interest only mortgages, home ownership is not always providing a pension for home owners. A significant number are entering retirement with capital to still pay off. And those who do own a home experience difficulty in trying to release equity from it. There may be far more merit in reforming the pensions system than reforming the housing system.

The current crisis in the market also means that not everyone wants to become a home owner. There has been an increase in voluntary repossession because people just want to get rid of the burden of home ownership. Consumer Focus also did some research that found that Right to Buy tenants are much more likely to experience arrears. Many of the delegates thought that, in order to address the housing wealth divide, the government should address the privileged position of home ownership in the tax system: it was argued that something is wrong if the volume of state money going into homeownership is the same as that provided for social housing. However, the political viability of such a transfer from the wealthy to the poor is uncertain.

### **Low Cost Home Ownership (LCHO)**

There was an interesting discussion on the potential of LCHO schemes to help more low earners into home ownership through intermediate rent i.e. where an tenant pays 80 per cent of market rent with the potential to save for a deposit. At the moment there are few opportunities to enter an intermediate rent scheme and opportunities often go to people who would have been shared owners in the past. More thought needs to be given as to who this scheme is designed for. Rent to Buy was originally designed to help Housing Associations through provision of a revenue stream, but Government investment in it will soon dry up. There is some research that suggests that the intermediate housing sector can yield a return if you give up the development profit and take it as yield but it may only be Housing Associations that are willing to do this.

There was some concern about whether or not shared ownership presented a good deal for home owners: individuals can own as little as 25 per cent of the property and still have to cover the cost of repairs. It hasn't always proved to be a good investment for the individual. Delegates thought that part of the problem was that the government had never really spelt out its intentions for low cost home ownership. As a result it had not been well developed and remained small, confusing and difficult to get advice on. A decision needs to be made: either stakeholders focus on fixing the scheme or they don't. Part of the problem is that there has been limited staircasing into full

ownership which has given the initiative bad press. There is also a concern that it has helped people who would have entered home ownership anyway. Morgan Stanley has developed a shared equity mortgage. Some lessons can be learnt from Germany, where developers have been subsidised to provide sub-market rents for the first 30-40 years.

There is also a need for more flexible types of ownership to recognise that a household can become a low income household at any point and would benefit from flexibility to change their tenure status. A scheme could be designed to enable them to staircase up or down different levels of home ownership. This could also help people release equity in retirement.

### **Sustaining home ownership**

On sustaining home ownership in the current context, delegates thought that there was merit in expanding Support for Mortgage Interest (SMI). SMI doesn't provide support for people where one person in the household is still working or help those who experience a partial reduction in earnings. Mortgage Protection Payment Insurance (MPPI) is of limited use, and increasingly difficult to access as many insurers have left the market. There was also a view that MPPI is not suitable for low earners because of the cost. Many of the recession policies to sustain home ownership are also time limited. SMI is only available for people on Job Seekers Allowance for two years, which assumes their problems will have been sorted by this time. In these cases problems are simply deferred. There is a need to think practically about what needs to be done in 2010/11. And to focus on educating people on their rights in relation to housing so that they make informed decisions before they get into a crisis.

It is important to keep in mind that repossession is not always a result of marginal home ownership, but people who simply made poor financial decisions. The defence forms used at repossession hearings also ask people how much people can repay lenders before they have been asked to fill in an income and expenditure sheet. Some people, in particular low earners, will lack the financial skills to do this.

### **5. Summing up and next steps: Sue Regan, Resolution Foundation**

Speakers provided final contributions arguing that there is clearly the need for a political decision on which tenure is most desirable or whether the objective should be tenure neutrality. This is going to be difficult with the forthcoming election where politicians are reluctant to commit to anything long-term. We need to try and work out who home ownership is appropriate for and keep in mind that government funds are going to be decreasing in the coming years. It will also be important to keep in mind the role of local authorities in the housing debate.

Sue thanked people for coming and for their insightful contributions. The Resolution Foundation will be producing a report in November which we will make available to delegates.